

January 11, 2021

Research Flash Update

Essential Utilities, Inc.

(WTRG/NYSE)

Rating/Risk:	Outperform/Moderate
Price:	\$48.72
Target Price (\$US):	\$54.00
Market Cap (\$US millions):	\$11,950
ADTV (US\$ millions):	\$61.0

Target Price and Rating are for 12 months.

Estimates	EPS		Revenue (Net)		P/E
	B&S	Cons.	B&S	Cons.	
2018A	\$1.08	-	\$838.1	-	45.1x
2019A	\$1.00	-	\$889.7	-	48.7x
2020E*	\$1.15	\$1.59	\$1,396	\$1,639	42.5x
2021E	\$1.68	\$1.67	\$1,625	\$1,819	29.0x

FYE 12/30; Revenue in USD millions.

All historical EPS and B&S EPS estimates GAAP.

*Guidance: \$1.53-\$1.58 ("adjusted") reflects full year of Peoples.

Source: Capital IQ, B&S Estimates

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2021 guidance in-line, muni acquisition program remains on-track with key DELCORA court win.

Essential Utilities issued initial 2021 EPS guidance of \$1.64-\$1.69, bracketing incoming consensus of \$1.67 (2020E: \$1.59), highlighting the steady growth story of the regulated utility business. At the midpoint, the 2021 guidance represents year/year EPS growth of 5%, a solid figure in what remains a highly uncertain macro environment. We reiterate our Outperform rating for shares of WTRG, which are among our current top ideas in the water/environmental sector.

Key Guidance/Outlook Highlights:

- Diluted EPS: \$1.64-\$1.69 (midpoint \$1.665)
- 3-year EPS CAGR: 5% to 7% (through 2023)
- 3-year Capex Target: \$3 billion (Water + Gas)
- 3-year Rate Base CAGR – Water: 6% to 7%
- 3-year Rate Base CAGR – Gas: 8% to 10%
- Water Customer Growth: 2% to 3% (organic + acquisitions)

Discussing the municipal acquisition pipeline, Essential says that it currently has purchase agreements in place representing 225,000 customer connections and \$420 million in rate base. This is up from 212,000 connections at the end of 3Q despite the tabling (for now) of the Norristown (PA) opportunity, reflecting in part the recent addition of Bourbonnais (IL) and underscoring the depth and cadence of the municipal M&A market in the fair market value era.

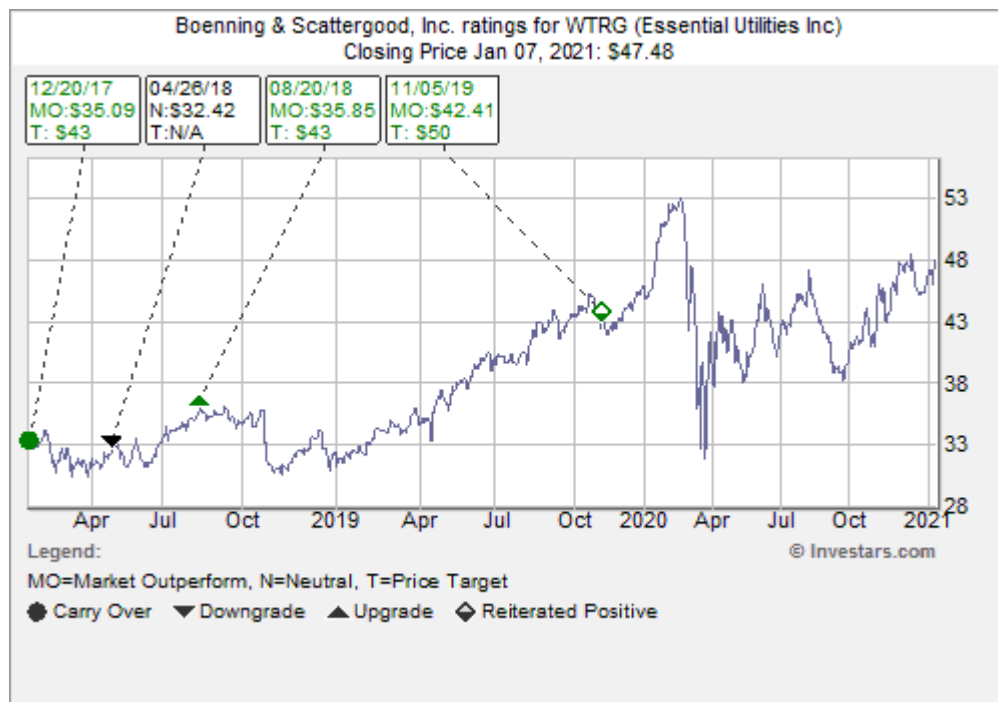
The \$276 million purchase of DELCORA is the biggest deal pending, and we believe recent developments bode well for the transaction. A legal challenge brought by Delaware County politicians received a major setback when the Delaware Court of Common Pleas ruled in Essential's/Aqua's favor. Attention now turns to the PUC, where the deal must be approved before moving on to closing. We see the DelCo ruling as a key win for Aqua and would be very surprised if the PUC does not approve the deal. We anticipate a 2Q21 close.

WTRG and its regulated utility peers have performed respectably of late on a risk-adjusted basis (WTRG +5% TTM), but have lagged the broader bull market (S&P 500 +17% TTM) and in particular the huge gains in the water industrial sector (peer group average +33% TTM). We believe WTRG shares offer a compelling reward/risk equation, and reiterate our Outperform rating. Our price target of \$54 reflects a P/E of 32times, in-line with the water utility peer group.

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Disclosure Appendix

Rating and Price Target History:



Risk Factors

The realization of any or all of the following risk factors, among others, may adversely affect the company's stock price and prevent it from reaching our price target: the economic cycle, concentration in energy sector, foreign currency exposure, and client concentration.

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Boenning & Scattergood has managed a public offering and received compensation from the subject company within the past 12 months.

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Ratings Distribution (9/30/20):

Coverage Universe (a)	% of Universe	Investment Banking Clients (b)	% of Rating Group
Outperform (Buy)	32%	Outperform (Buy)	21%
Neutral (Hold)	46%	Neutral (Hold)	9%
Underperform (Sell)	1%	Underperform (Sell)	100%
Not Rated	20%	Not Rated	7%

(a) Related to services provided within the past 12 months.

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